

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2018-142-E - ORDER NO. 2018-444

JUNE 28, 2018

IN RE: Joint Application of Duke Energy Carolinas, LLC, Duke Energy Progress, LLC, and South Carolina Electric & Gas Company for Executory Transfer and Sale of Property)	ORDER APPROVING EXECUTORY TRANSFER OF EQUIPMENT
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I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (“the Commission”) on the request of Duke Energy Carolinas, LLC (“DEC”), Duke Energy Progress, LLC (“DEP”), and South Carolina Electric & Gas Company (“SCE&G”) (collectively, the “Companies”) to participate in the Regional Equipment Sharing for Transmission Outage Restoration (“RESTORE”) program. The Companies request approval from the Commission for the executory transfer of electric transformers and other critical transmission-related equipment with a fair market value of greater than one million dollars, as provided for by the agreement governing that program (“RESTORE Agreement”).

The RESTORE Agreement, according to the Companies, provides for the efficient and timely bilateral transfer of electric transformers and other critical transmission-related equipment (“Qualifying Equipment”) between RESTORE program participants (“RESTORE Participants”) following a catastrophic event in order to provide mutual

assistance in the restoration of secure and reliable grid operations more quickly and efficiently.

The Companies submit this Application pursuant to S.C. Code Ann. § 58-27-1300, which requires that utilities obtain approval from the Commission in order to “sell, assign, transfer, lease, consolidate, or merge its utility property” with a fair market value of over one million dollars. The Companies assert that this request is consistent with the public interest because the purpose and expected effect of the RESTORE Agreement is to enhance the reliability and resilience of the electric transmission grid on a timely and cost-effective basis, which will contribute to system reliability and to lower overall cost of service to customers.

II. BACKGROUND

The Companies state that the purpose of the RESTORE Agreement is to provide a framework for the efficient transfer of critical transmission-related equipment following defined disaster response and recovery events (“Triggering Event”). The importance of a strategic transformer reserve has been identified in several recent studies and reports, including the Department of Energy’s (“DOE”) Strategic Transformer Report to Congress in 2017 discussed below. Since the initiative began, the RESTORE Agreement has expanded to include a total of twenty-eight participating utilities.

The Companies submit this request in order to expedite and streamline the regulatory filing requirements for certain transfers under the RESTORE Agreement. Filings pertaining to this matter have also been made by the RESTORE Participants with the Federal Energy Regulatory Commission. Section I.JJ of the RESTORE Agreement

defines a “Triggering Event” as “a catastrophic event creating an urgent grid need in which, for an extended period of time, a Participant loses its ability to serve significant load, is at imminent risk for losing significant load, or cannot maintain grid stability.”

The RESTORE Agreement is intended, according to the Companies, to be complementary to the Edison Electric Institute’s Spare Transformer Equipment Program (“EEI STEP Program”) and the program initiated by Grid Assurance, LLC by providing additional resources for utilities seeking critical equipment during disaster recovery events, thus enhancing the resilience and reliability of the power grid. The Commission granted approval under S.C. Code Ann. § 58-27-1300 for DEC to participate in the EEI STEP Program in 2006. The RESTORE Agreement is not intended to replace these other arrangements. As with the EEI STEP Program, the Companies believe that, if they were required to seek approval from the Commission of a transfer of Qualifying Equipment following a Triggering Event under S.C. Code Ann. § 58-27-1300, the time required to prepare and file an application and to receive authorization could significantly delay a buyer’s ability to place its transmission system back in service.

By granting prior approval of the transfer of Qualifying Equipment, coupled with a requirement that the Companies make a timely filing with the Commission reporting transactions of over one million dollars in value under the Companies’ proposal, the Commission will help ensure that an impacted utility can restore its system to operation as quickly and transparently as reasonably possible, thus protecting customers from prolonged outages or the threat thereof.

III. DESCRIPTION OF RESTORE AGREEMENT AND RESTORE PARTICIPANTS

A. Introduction of Agreement

The RESTORE Agreement is available to utilities that qualify as “transmission owners that provide a regional benefit to existing [RESTORE Participants] and who are willing and able to contribute Equipment to Pools in Equipment classes in accordance with the terms and conditions of the [RESTORE] Agreement” and who satisfy certain other criteria set forth in the RESTORE Agreement. The RESTORE Agreement requires, among other things, that its participants have the regulatory authorization necessary to sell, or cause to be sold, Qualifying Equipment pursuant to the agreement. The scope of equipment to be transferred under the RESTORE Agreement is currently limited to transformers of various classes, but other types of equipment may be included in the future in accordance with the terms and conditions of the RESTORE Agreement. Such equipment could include, for example, breakers or switches, but would not include any generation equipment.

The Companies are submitting the RESTORE Agreement in its entirety, including all Appendices, except for Appendix B to the RESTORE Agreement, which lists the specific equipment (including serial numbers) committed by each RESTORE Participant under the RESTORE Agreement. The specific list of equipment and serial numbers is likely neither relevant nor helpful to the Commission’s decision under S.C. Code Ann. § 58-27-1300.

There is a detailed process for participants purchasing equipment under the RESTORE Agreement, which, in brief, involves the participant notifying an Operating

Committee of an event; the Operating Committee evaluating the event to determine whether it is a Triggering Event under the agreement; the Technical Committee making a recommendation to the Operating Committee of which spare equipment from the pool should be purchased; the Technical Committee publishing considerations, factors, or other procedures for the determination of which specific equipment should be purchased; the participant exercising its Call Rights to purchase the equipment; and the purchasing participant and selling participant executing a purchase and sale agreement. The equipment must be purchased at net cost based on information reasonably available to the seller at the time of the closing; net cost includes the purchase price plus reimbursable costs. Defined more precisely in the RESTORE Agreement, the purchase price is equivalent to the replacement costs of the equipment, and reimbursable costs include costs to prepare the equipment for transfer to the purchasing participant and the associated tax liability.

B. Relationship between the RESTORE Program and the EEI STEP Program

The Companies state that the RESTORE Agreement complements and supplements existing sparing agreements such as the EEI STEP Program. Like those programs, the RESTORE program allows participants to assist each other in quickly restoring their respective grids following a disaster by prearranging to transfer available equipment quickly and cost-effectively. Similar to the EEI STEP Program participation is voluntary and open to participants meeting certain contractual commitments and qualifications to join. However, while the EEI STEP Program defines the Triggering Event as a presidentially declared state of emergency, the RESTORE program allows for the proposed transfers to be triggered by a wider scope of disasters by defining a Triggering Event as “a

catastrophic event creating an urgent grid need in which, for an extended period of time, a RESTORE Participant loses its ability to serve significant load, is at imminent risk for losing significant load, or cannot maintain grid stability. Thus, a Triggering Event under the RESTORE Agreement could occur after a major storm or weather event that meets the RESTORE Agreement's definition but does not rise to the level of a presidentially declared state of emergency as required by the EEI STEP Program.

IV. REQUEST FOR APPROVAL AND REPORT COMMITMENT

A. Request for Approval of Executory Transfers

The Companies request prior approval from the Commission under S.C. Code Ann. § 58-27-1300 to make executory transfers of Qualifying Equipment, pursuant to the RESTORE Agreement, with a fair market value of over one million dollars. Although all Qualifying Equipment transferred under the RESTORE program may not exceed the one million dollar threshold, it is conceivable that, following a catastrophic event “activating” the provisions of the RESTORE Agreement, such exigent transfers would likely exceed that amount.

Advance approval of transfers of jurisdictional facilities is consistent with Commission practice. As noted above, the Commission has previously authorized DEC to participate in the EEI STEP Program and make executory transfers and sales pursuant to the related governing agreement consistent with S.C. Code Ann. § 58-27-1300. As with the EEI STEP Program, the Companies believe that, given the catastrophic nature of a Triggering Event and the need to efficiently implement a response, there would not be

sufficient time to apply to the Commission for approval and still meet the commitments of the RESTORE Agreement in a timely manner.

More recently, the Commission granted approval for the transfer of certain spare parts between DEC and DEP in order to coordinate and optimize the management of their respective inventories and “create potential maintenance outage cost savings through the transfer of [spare] parts between them at fair market value.”

As in that case, the request for relief set forth within this Application would not involve a change to any of the Companies’ retail rates or prices at this time or require any change in any Commission rule, regulation, or policy. Unlike that case, rather than granting approval for transfers between solely DEC and DEP, the Commission’s approval would permit the Companies to transfer specific critical equipment between and among twenty-eight participating utilities (and any subsequent participants that may join RESTORE), pursuant to the RESTORE Agreement, following a catastrophic event.

For these reasons, the Companies believe that the approval sought in this Application for executory transfers and sales of Qualifying Equipment pursuant to the RESTORE Agreement is reasonable and prudent, consistent with Commission practice, and will serve the best interests of the Companies’ customers and all citizens of South Carolina.

B. Post-Transfer Report Commitment

While the Companies request approval for executory transfers under the RESTORE Agreement, they also commit to informing the Commission of transfers after they occur. Specifically, the Companies commit to submitting reports to the Commission within thirty

(30) days following a transfer under the RESTORE Agreement that has a fair market value of greater than one million dollars, consistent with the requirements of S.C. Code Ann. § 58-27-1300. The Companies further commit to submitting reports to the Commission within six (6) months after the closing of such transactions. The Commission's prior approval for the Companies to participate in the RESTORE program and to transfer Qualifying Equipment that has a fair market value of greater than one million dollars, combined with a timely reporting requirement once transfers take place, will ensure that an impacted utility can restore its system to operation as efficiently and transparently as reasonably possible.

The Companies further acknowledge their obligations to comply with S.C. Code Ann. § 58-27-2090 if and when seeking recovery of costs arising out of any transfers between the Companies or affiliates under the RESTORE Agreement. The Companies believe that, because the transfers of Qualifying Equipment are governed by the detailed provisions of the RESTORE Agreement, the transactions occur at-cost, and the transactions are closely coordinated by the RESTORE Technical Committee and Operations Committee, as described above. Further, the process of equipment transfers through the RESTORE program is inherently reasonable, fair, and beneficial to the public interest, according to the Companies.

V. CONCLUSION AND ORDER

This Commission has considered the matters as described by the Companies, and we believe that the process related to the executory transfers and participation in the RESTORE program are indeed reasonable, fair, prudent, and beneficial to the public

interest. Accordingly, this Commission hereby approves the executory transfer of electric transformers and other critical transmission-related equipment with a fair market value of greater than one million dollars as described above. Clearly, this transfer is a requirement for participation in the RESTORE Program. The Companies shall, upon transfer of any assets under the agreement, immediately provide the proposed bookkeeping entries to the Office of Regulatory Staff for review, and after such review, the bookkeeping entries shall then be provided to the Commission for approval.

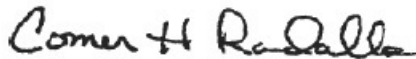
This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:



Swain E. Whitfield, Chairman

ATTEST:



Comer H. Randall, Vice Chairman